

Message Text

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ACTION EUR-12

INFO OCT-01 ISO-00 ERDA-07 AID-05 CEA-01 CIAE-00 CIEP-02

COME-00 DODE-00 EB-07 FPC-01 H-02 INR-07 INT-05 L-02

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FM AMEMBASSY OTTAWA

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POUCHED TO ALL CONSULATES IN CANADA AS INFO

E.O. 11652: N/A

TAGS: ENRG, CA

SUBJ: FIRST MINISTERS' ENERGY CONFERENCE, APRIL 9:

AFTERNOON SESSION

REF: A. OTTAWA 1302; B. HALIFAX 107 (NOTAL)

1. RELATIVELY SHORT APRIL 9 AFTERNOON PUBLIC SESSION OF
FIRST MINISTERS' CONFERENCE WAS INFORMAL (SET SPEECHES HAD
BEEN DELIVERED IN MORNING SESSION AS REPORTED BY REFTEL A),
AND WAS CONDUCTED IN ESSENTIALLY QUESTION AND ANSWER FORMAT,
WITH NOTABLE EXCEPTION OF PROPOSAL BY SASKATCHEWAN PREMIER
BLAKENEY TO ESTABLISH ENERGY SECURITY FUND AS ALTERNATIVE TO
ANY RELATIVELY SIMPLE AND STRAIGHTFORWARD OIL PRICE
INCREASE.

2. IN BRIEF, BLAKENEY'S ENERGY SECURITY FUND, WHICH HE
EMPHASIZED WOULD BE OWNED AND CONTROLLED SOLELY BY CANADIANS,
WOULD BE THE RECIPIENT OF ALL OIL PRICE INCREASES OVER THE
PRESENT \$6.50 PER BARREL WELL-HEAD PRICE. BY HIS CALCULATION,
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SUCH A FUND WOULD BE SUFFICIENT FOR EACH ONE DOLLAR

INCREASE IN THE WELL-HEAD PRICE TO FINANCE A NEW TAR SANDS OIL PLANT OF SYNCRUIDE SIZE (125,000 B/D) APPROXIMATELY EVERY THREE YEARS. THE FUND WOULD BE OPERATED BY THE FEDERAL GOVERNMENT. AS AN INTEGRAL PART OF THIS PROPOSAL, BLAKENEY WOULD REQUIRE OTTAWA TO RESTORE TO THE PRODUCING PROVINCES THE DEDUCTIBILITY OF PROVINCIAL ROYALTY PAYMENTS FROM THE FEDERAL CORPORATE TAX APPLICABLE TO THE RESOURCES INDUSTRY. FAILING ACCEPTANCE OF THIS PROPOSAL, BLAKENEY STATED THAT HE WOULD ACCEPT A \$2.50 PER BARREL INCREASE IN OIL PRICE BUT EMPHASIZED THAT THIS WAS "THE SIMPLE SOLUTION" WHICH WOULD NOT HELP ASSURE FUTURE SUPPLIES, WOULD NOT RESOLVE THE ROYALTY "DOUBLE TAXATION" PROBLEM, AND WOULD CONTINUE TO LEAVE THE INDUSTRY IN ITS UNENVIALE AND UNFAIR STATE OF CONFUSION OVER ITS FUTURE PROSPECTS IN CANADA. ON GAS PRICING, BLAKENEY SUGGESTED A TWO-PRICE SYSTEM BASED ON OLD AND NEW GAS.

3. MANITOBA PREMIER SCHREYER, ADMITTEDLY DISPLAYING THE AMBIVALENCE OF HIS PROVINCE, SUGGESTED A TWO-PRICE SYSTEM FOR OLD AND NEW OIL, WITH ANY INCREASE IN THE PRICE OF OLD OIL GOING INTO A "BLAKENEY-TYPE" FUND. SCHREYER ALSO EXPRESSED AGREEMENT WITH PREMIER BOURASSA THAT MANITOBA COULD NOT COUNTENANCE AND OIL PRICE INCREASE WHICH WOULD BE IN EXCESS OF THE AVERAGE U.S. OIL PRICE. B.C. PREMIER BARRETT ALSO SUPPORTED THE FUND PROPOSAL AS A WAY IN WHICH "TO GIVE THE CANADIAN PEOPLE AN EQUITY IN THEIR OWN RESOURCES".

4. PM TRUDEAU, AS CONFERENCE CHAIRMAN, STATED IN RESPONSE TO BLAKENEY'S FUND IDEA THAT IN HIS VIEW IT WAS A "SERIOUS BUT COMPLICATED PROPOSAL" THAT "DESERVES TO BE SUTIDED IN DETAIL".

5. OTHER POINTS RAISED AND/OR MADE IN THE AFTERNOON SESSION WERE AS FOLLOWS:

A. BLAKENEY Railed AGAINST THE OIL EXPORT TAX AND DESCRIBED IT AS "TRAUMATIC" FOR SASKATCHEWAN. HE CHARACTERIZED IT AS "TOO HIGH AND TOO INFLEXIBLY UNCLASSIFIED

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ADMINISTERED" FOR HIS PROVINCE'S HEAVY-TYPE OIL WHICH IS "OVER-PRICED IN THE U.S. MARKET."

B. ALBERTA PREMIER LOUGHEED VOICE CONSIDERABLE CONCERN THAT "NEARLY 30 PERCENT" OF CANADA'S OTAL RIG CAPACITY HAS NOW LEFT OR IS IN THE PROCESS OF LEAVING CANADA AND ASKED WHO IS GOING TO DEVELOP CANADA'S NEW ENERGY SOURCES. ENERGY MINISTER

MACDONALD RESPONDED THAT THIS INDEED WAS A SERIOUSLY PROBLEM AND POINTEDLY NOTED (PROBABLY FOR BARRETT'S ATTENTION) THAT IT WAS INTERESTING AND PERHAPS PERVERSE THAT THE DEPARTEES WERE VIRTUALLY ALL CANADIAN EXPLORATION AND DEVELOPMENT FIRMS WHEREAS THE MULTINATIONAL OIL COMPANIES WERE THE ONES REMAINING IN CANADA AND PURSUING THEIR ACTIVITIES, ALBEIT AT A SOMEWHAT REDUCED LEVEL. MACDONALD ALSO NOTED THE IMPORTANT FACTOR THAT DRILLERS ARE UNDERSTANDABLY ATTRACTED BY THEIR ABILITY TO WORK ON AVERAGE 300 DAYS A YEAR IN THE U.S. WHILE THE COMPARABLE FIGURE IN CANADA IS ONLY 145 DAYS. BOTH MACDONALD AND LOGHEED ALSO EXPRESSED CONCERN THAT CANADA HAS NO RPT NOT RIG MANUFACTURING CAPABILITY AND THAT PERHAPS THE GOC AND ALBERTA SHOULD GET TOGETHER AND DO SOMETHING ABOUT THIS PROBLEM.

C. ONTARIO'S PREMIER DAVIS AGAIN IN THE AFTER-NOON SESSION REITERATED HIS STRONG OPPOSITION TO ANY PRICE INCREASE AS LONG AS THERE ARE 272,000 UNEMPLOYED IN ONTARIO AND NO END IN SIGHT TO "OTHER GRIM ECONOMIC FACTORS." HE FURTHER STATED FLATLY THAT ONTARIO CANNOT CONTINUE TO COMPETE WITH ITS NEIGHBORING U.S. STATES IF ENERGY PRICES RISE ANY HIGHER AND THE FEDERAL GOVERNMENT WOULD HAVE TO ACCEPT THE BLAME IF IT EVENTUALLY IMPOSES A UNILATERALLY-DECIDED INCREASE ON THE PROVINCES TO THE OVERALL DETRIMENT TO THE CANADIAN ECONOMY.

6. IN TV INTERVIEW, LOGHEED STATED THAT GIVEN PRESENT LOW PRICES AND LACK OF EXPLORATION AND DEVELOPMENT THERE WILL BE SHORTAGE OF NATURAL GAS IN UNCLASSIFIED

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ONTARIO WITHIN THREE YEARS AND IN SIX YEARS FOR OIL. HE SAID, THEREFORE, THAT IN MANY WAYS GAS-PRICING IS A MORE CRITICAL SITUATION FOR THE CONFERENCE THAN OIL-PRICING. HE EXPRESSED OPEN DOUBTS THAT ANY AGREEMENT COULD BE REACHED AT THE CONFERENCE BUT THAT PERHAPS THE CONFERENCE RESULTS SHOULD BE JUDGED ON THE BASIS OF WHETHER THERE IS A NATIONAL BETTER UNDERSTANDING OF THE ENERGY PROBLEMS FACING CANADA. PORTER

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